

Message Text

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ACTION EUR-12

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UNCLAS REYKJAVIK 1054

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SUBJECT: WAITING FOR A GOVERNMENT

REF: REYKJAVIK 1034 AND REYKJAVIK A-14 OF 5/19/78

1. IT HAS NOW BEEN ALMOST SEVEN WEEKS SINCE NATIONAL ELECTIONS, AND THERE ARE SIGNS OF INCREASED RESTLESSNESS AS ICELANDERS WAIT FOR NEW GOVERNMENT TO TAKE OVER FROM GEIR HALLGRIMSSON'S CARETAKER REGIME. LAME DUCK GOVERNMENT HAD MADE FEW IMPORTANT DECISIONS DURING THIS PERIOD, EXCEPT FOR SOME POLITICAL APPOINTMENTS AND COMMERCIAL PURCHASES. RANKING CAREER OFFICIAL IN ONE MINISTRY RECENTLY EXPRESSED SOME CONCERN THAT SIGNIFICANT MATTERS REMAIN WITHOUT RESOLUTION WITH MINISTERS BEING EITHER UNAVAILABLE OR UNWILLING TO TAKE DECISIONS.

2. MEANTIME, ICELAND'S DIFFICULT ECONOMIC SITUATION HAS CONTINUED TO ERODE. FISH FREEZING PLANTS, FACING HIGHER COSTS BUT FIXED PRICES IN US MARKET, PARTICULARLY HARD HIT. SOME FIFTEEN TO TWENTY PLANTS HAVE ALREADY CLOSED INCLUDING ALL BUT ONE IN WESTMAN ISLANDS, AREA ESPECIALLY DEPENDENT UPON FISHING INDUSTRY. AS RESULT, NATIONAL
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UNEMPLOYMENT (WHICH TOTALLED ONLY 138 PERSONS AS OF JULY 31) HAS INCREASED DRAMATICALLY LED BY WESTMAN ISLANDS WHERE SOME 1100 PEOPLE ARE NORMALLY EMPLOYED IN FREEZING PLANTS. ALTHOUGH CENTRAL BANK DID PROVIDE INTERIM LOANS FOR SOME PLANTS, SEVEN MORE PLANTS HAVE THREATENED TO CLOSE SEPTEMBER 1 UNLESS ADDITIONAL ASSISTANCE IS OBTAINED. EXECUTIVE OF FREEZING

PLANTS CORPORATION SPECULATES THAT PERHAPS SOME 3000 PEOPLE COULD BE OUT OF WORK IF PLANTS SHUT DOWN COMPLETELY AND RIPPLE EFFECT OF UNEMPLOYMENT SPREADS THROUGHOUT ECONOMY. THIS IS REPLAY OF SCENARIO ACTED OUT PRIOR TO FEBRUARY DEVALUATION WITH OWNERS OF FREEZING PLANTS TRYING TO SPEED UP NEW DEVALUATION THAT IS WIDELY ANTICIPATED.

3. OTHER BUSINESSES ARE ALSO FACING SQUEEZE BETWEEN RISING COSTS AND GOVERNMENT-REGULATED PRICES. IN SEEKING INCREASES, COMPANIES ARE STYMIED BY PUBLIC OFFICIALS WHO ARE RELUCTANT TO APPROVE UNPOPULAR INCREASES PENDING CHANGE IN GOVERNMENT. PRICE INCREASES HAVE BEEN APPROVED DURING CARETAKER PERIOD, BUT BUSINESS FINDS DELAYS COSTLY AND INCREASES HAVE OFTEN BEEN INSUFFICIENT TO OFFSET RISING COSTS.

4. ICELANDIC PRIME CONTRACTOR (IPC) WHICH HANDLES CONSTRUCTION AT NATO BASE ALSO TRYING TO PUT PRESSURE ON GOVERNMENT FOR ACTION. CARPENTERS HAVE ALREADY RECEIVED THEIR NOTICES, AND OTHER EMPLOYEES ARE ALSO DUE TO BE LAID OFF AS RESULT OF NORMAL CYCLICAL DECREASE IN EMPLOYMENT LEVELS. HOWEVER, IPC, IS BLAMING GOI FOR UNEMPLOYMENT CITING "UNCERTAINTY" OVER NEW AIR TERMINAL PROJECT.

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5. MEANWHILE GOVERNMENT FORMATION TALKS PROCEED AT GLACIAL PACE. FIRST SESSION OF TALKS AMONG INDEPENDENCE PARTY, SOCIAL DEMOCRATIC PARTY (SDP), AND PROGRESSIVE PARTY (PP), OCCURRED MORNING AUGUST 11. IT IS NOTEWORTHY THAT PROGRESSIVE PARTY CHAIRMAN OLAFUR JOHANNESSON, WHO DECLINED TO PARTICIPATE IN TALKS AMONG SDP, PP, AND PEOPLE'S ALLIANCE, JOINED IN THESE DISCUSSIONS. THIS INDICATES PP LEADERSHIP HAS NOW MOVED FURTHER AWAY FROM ITS IMMEDIATE POST-ELECTION STANCE OF ABSTAINING FROM GOVERNMENT IN ORDER TO PERMIT QTE VICTORS UNQTE TO SOLVE COUNTRY'S PROBLEMS. MEMBERS OF ALL THREE PARTIES HAVE EXPRESSED MODERATE DEGREE OF OPTIMISM RE PROSPECTS FOR IP-SDP-PP COALITION. NONETHELESS, FOR REASONS NOTED REFTTEL, WE BELIEVE NEGOTIATIONS WILL BE PROTRACTED.
BLAKE

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